An Introduction to Alaska Income Tax Options and Issues

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Executive Summary

- **An individual income tax is being discussed as a potential new source of revenue to help close the $3.2 billion deficit Alaska is currently facing.** The deficit has resulted from a combination of declining oil production and lower oil prices, and other factors.

- **There are many potential ways to structure an individual income tax.** Key design features include the extent to which the tax is "flat" (the same rates for everyone) or "progressive" (with rates increasing as income increases); the tax rates at given income levels; and how income is defined and what is deductible.

- **Alaska had an income tax for 31 years, between 1949 and 1980.** This tax provided the majority of the revenue for the Alaskan government.

- **The legislature ended the income tax in 1980**. For the past 36 years, from 1980-present, Alaska has relied upon oil revenues to fund most government expenditures.

- **Forty-three states have income taxes.** The structure of these income taxes vary significantly between states, as do tax rates. Thirty-three states have progressive income taxes and ten states have flat taxes. Alaska is the only state that does not have either a personal income tax or sales tax.

- **Two income tax proposals were introduced in the most recent legislative session.** One, a progressive tax by Representative Paul Seaton, would tax 15% of federal tax obligation, and bring in approximately $500 million annually. The other, a progressive tax by Governor Walker, would tax federal tax obligation at 6%, and bring in approximately $200 million annually.

- **Non-residents of Alaska would pay an estimated 7% of a progressive income tax**. The Federal government would indirectly "pay" an estimated 10% (in the form of reductions in Alaskans' federal income tax obligations because state income taxes would be deductible).